

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2020-\_\_\_\_-C

Application of Frontier Communications Corporation, Frontier Communications Online and Long Distance Inc., Frontier Communications of America, Inc. Frontier Communications of the Carolinas LLC, and Frontier Communications ILEC Holdings LLC for Transfer of Ownership and for Declaratory Relief.

APPLICATION

Pursuant to S.C. Code Ann. §§ 58-9-280 and 58-9-310, Frontier Communications Corporation (“Frontier”), Frontier Communications Online and Long Distance Inc. (“Frontier Online and Long Distance”), Frontier Communication of America, Inc. (“FCA”), Frontier Communications of the Carolinas LLC (“Frontier-Carolinas”), and Frontier Communications ILEC Holdings LLC (“Frontier ILEC Holdings,” together with Frontier Online and Long Distance, FCA and Frontier-Carolinas, the “South Carolina Operating Subsidiaries,” and together with Frontier the “Applicants”) respectfully submit this application (the “Application”) to make the following requests to the Public Service Commission of South Carolina (the “Commission”) to effectuate the Company’s pre-arranged plan of reorganization (the “Plan,” and the transactions contemplated thereunder, the “Restructuring”) under chapter 11 (“Chapter 11”) of title 11 of the United States Code (the “Bankruptcy Code”).<sup>1</sup>

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<sup>1</sup> On April 15, 2020, the South Carolina Operating Subsidiaries notified the Commission that, on April 14, 2020 (the “Petition Date”), Frontier and its direct and indirect subsidiaries, which include Frontier Online and Long Distance and Frontier-Carolinas (collectively, the “Company” or the “Debtors”) filed voluntary petitions (the “Bankruptcy Petitions”) for relief under Chapter 11 with the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) to reorganize under the Bankruptcy Code (the “Chapter 11 Cases”). The Chapter 11 cases are being jointly administered under the caption *In re Frontier Communications Corporation, et al.*, Case No. 20-22476 (RDD).

1) Frontier Online and Long Distance and FCA request approval of the transfer of their ownership in connection with the Restructuring.

2) Frontier-Carolinas and Frontier ILEC Holdings respectfully request that the Commission, consistent with its past precedent, declare it does not object to or, alternatively, that it approves, the transfer of the ownership of the South Carolina Operating Subsidiaries in connection with the Restructuring.

### **Representatives**

All communications about this Application should be directed to the representatives of the Applicants listed below:

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### **Entities**

Frontier is a publicly traded Delaware corporation with a total of 99 subsidiaries—57 direct and 42 indirect wholly owned subsidiaries, including the South Carolina Operating Subsidiaries.

Frontier Online and Long Distance is a Delaware corporation and a direct, wholly owned subsidiary of Frontier authorized to provide interexchange services by Order 2009-769, dated October 29, 2009, in Docket No. 2009-220-C.

FCA is also a Delaware corporation and a direct, wholly owned subsidiary of Frontier, authorized to provide resold and facilities based local exchange services in South Carolina pursuant to Order 2011-247, dated April 4, 2011, in Docket No. 2010-399-C.<sup>2</sup>

Frontier-Carolinas is a limited liability company, organized in the State of Delaware, authorized to provide local exchange services in the State of South Carolina. Frontier-Carolinas' sole member is Frontier ILEC Holdings.

Frontier ILEC Holdings is a limited liability company organized in the State of Delaware. Its sole member is Frontier. It does not provide service in South Carolina.

### **Events Leading to the Chapter 11 Filing**

As of the Petition Date, Frontier had outstanding funded debt of approximately \$17.5 billion, with large debt payments coming due in the next several years. Frontier has also been constrained by high debt-service costs associated with its borrowing and recent acquisitions. In both 2018 and 2019, Frontier paid interest expense of approximately \$1.5 billion.<sup>3</sup>

Frontier has arrived at a point of unsustainable debt obligations and financial instability that necessitates the Restructuring. The telecommunications industry, in general, and Frontier's markets, in particular, have undergone dramatic changes since the Telecommunications Act of 1996. Incumbent local exchange carriers ("ILECs"), such as Frontier-Carolinas, have experienced rapid, ongoing loss of voice, data, and video customers to competitors. Today, the Company provides voice service to less than 10% of the voice market in its nationwide footprint. Households

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<sup>2</sup> FCA, holds a certificate of public convenience and necessity from the Commission, but derives its revenue in South Carolina (approximately \$135,000), from the provision of Voice over Internet Protocol service. Applicants request the Commission's approval with respect to FCA to the extent that the Commission finds it has jurisdiction.

<sup>3</sup> In 2018 and 2019, Frontier's interest expense was \$1.536 billion and \$1.535 billion, respectively.

often have multiple wireless phones, but only a single landline, if any. In fact, over half of South Carolina households have wireless service only.<sup>4</sup>

As a result of these challenges, Frontier has engaged in a deliberate process to evaluate operating and restructuring alternatives. In Frontier's filings in support of the Chapter 11 Cases, the Company provided a detailed background for the Restructuring and the steps that the board of directors of Frontier ("Board") took to evaluate restructuring alternatives.<sup>5</sup> In short, the Board determined that comprehensively addressing Frontier's capital structure was necessary to create financial flexibility. Without addressing the balance sheet, Frontier will not be able to dedicate sufficient capital to its operations, including investments in network infrastructure, to maintain and grow the Company.

### **The Chapter 11 Proceeding**

On April 14, 2020, Frontier and its direct and indirect subsidiaries commenced a Chapter 11 proceeding after entering into a Restructuring Support Agreement (the "RSA")<sup>6</sup> with its senior unsecured noteholders holding more than seventy-five percent of its unsecured

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<sup>4</sup> National Center for Health Statistics, Wireless Substitution: Early Release of Estimates for the National Health Interview Survey, January-June 2018, [cdc.gov/nchsldata/earlyrelease/wireless201812](https://www.cdc.gov/nchsldata/earlyrelease/wireless201812)

<sup>5</sup> The Declaration of Carlin Adrianopoli, Executive Vice President of Strategic Planning In Support of Chapter 11 Petitions and First Day Motions filed with the Bankruptcy Court on April 14, 2020 and available at <https://docs.frontierpucapproval.com/frontier-first-day-declaration.pdf> discusses the events leading up to Frontier's bankruptcy, the Board's evaluation of alternatives and the negotiations leading up to the filing of the Chapter 11 cases.

<sup>6</sup> The Restructuring Support Agreement is available at <https://docs.frontierpucapproval.com/frontier-rsa.pdf>.

notes (such as noteholders, the “Consenting Noteholders,” and all holders of Frontier’s unsecured senior notes, the “Senior Noteholders”).<sup>7</sup>

Since the Petition Date, Frontier has worked with the Consenting Noteholders to memorialize the terms set forth in the RSA into the Plan.<sup>8</sup> The Plan was filed with the Bankruptcy Court on May 15, 2020, and is expected to be confirmed by in August 2020. Frontier is prepared to emerge from Chapter 11 as soon as it has secured the necessary regulatory approvals thereafter, including any approval of this Commission that may be required.

As of the Petition Date, Frontier had outstanding funded debt of approximately \$17.5 billion and was paying approximately \$1.5 billion in annual interest expense. The Plan proposes converting over \$10 billion of Frontier’s unsecured notes into stock in a reorganized parent company (“Reorganized Frontier”). Consequently, Frontier’s funded debt obligations are expected to be reduced to approximately \$6.6 billion at emergence, exclusive of any additional debtor-in-possession or revolving credit facility financing the Company may subsequently obtain.<sup>9</sup>

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<sup>7</sup> “Senior Noteholders” is defined in the Plan and is comprised of the holders of approximately \$10.95 billion in aggregate principal amount of unsecured senior notes issued by Frontier with maturities between September 2020 and October 2046 (the “Senior Notes”) that are publicly traded. “Consenting Noteholders” is defined in the Plan and is comprised of approximately 200 Senior Noteholders who have executed the RSA and have agreed to support the Plan and that hold over 75% of the Senior Notes. The Consenting Noteholders are primarily comprised of large, U.S.-based financial investment funds with experience in investing in U.S. telecommunications and technology companies.

<sup>8</sup> The Plan of Reorganization is available at <https://docs.frontierpucapproval.com/frontier-plan-of-reorganization.pdf>. In the event of a material modification of the Plan during the course of the bankruptcy proceeding, the Applicants will advise the Commission.

<sup>9</sup> Frontier has been able secure fully committed new money financing of up to \$460 million in debtor in possession financing, in the form of a revolving credit facility (the “DIP Facility”), that would convert to an exit revolving credit facility at emergence from Chapter 11. The pro forma capital structure assumes no outstanding principal amount under that facility. Entrance into the DIP Facility or exit financing arrangement may potentially increase the debt levels described above to \$7 billion, assuming the facility is fully drawn (although no borrowings are currently anticipated), which still represents an over \$10 billion reduction in the outstanding funded debt as of the Petition Date.

This total amount of remaining debt after Restructuring is comprised of approximately \$3.4 billion in first-lien debt, approximately \$1.6 billion in second-lien debt (on both a secured and unsecured basis), approximately \$856 million in subsidiary debt, and up to \$750 million in takeback debt (on a third-lien or unsecured basis). Frontier anticipates that its annual interest obligations will decrease from approximately \$1.5 billion to approximately \$500 million, thereby freeing up substantial capital for operating the business post-emergence.

Under the RSA and the Plan, Frontier will be dissolved and replaced by the Reorganized Frontier. As contemplated by the Plan, upon emergence from Chapter 11, each Senior Noteholder will receive its pro rata share of the Reorganized Frontier's stock.<sup>10</sup> None of the Senior Noteholders currently holds a 10% or greater direct or indirect equity interest in the Company. No single noteholder is anticipated to hold, directly or indirectly, 10% or more of the Reorganized Frontier's stock. Thus, as is the case with Frontier's ownership today, ownership of the Reorganized Frontier will be widely dispersed. Indeed, the primary change resulting from the Restructuring is a change of the stock ownership of Frontier from its existing public shareholders to the Senior Noteholders.

Further, upon emergence from Chapter 11, the stock of the Reorganized Frontier is intended to be listed on a recognized U.S. stock exchange as soon as reasonably practicable and be publicly traded thereafter. This transition will not create any new majority shareholders of Frontier, the South Carolina Operating Subsidiaries, or any other Frontier entities, nor will it provide operational control to any new persons or entities.

The Restructuring will not impact the day-to-day operations of the South Carolina Operating Subsidiaries. The South Carolina Operating Subsidiaries will continue to fulfill existing

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<sup>10</sup> Under the terms of the Plan, a small percentage of the Reorganized Frontier stock is reserved for a management incentive plan.

regulatory obligations in South Carolina. No assignment of authorizations, certifications, assets, or customers of the South Carolina Operating Subsidiaries will occur as a consequence of the proposed Restructuring. Following the consummation of the Restructuring, the South Carolina Operating Subsidiaries will continue to provide service to their existing customers at existing rates, and under the same terms and conditions, as they did prior to the Restructuring.<sup>11</sup> For all practical purposes, the Restructuring will be imperceptible to the South Carolina Operating Subsidiaries' customers. In addition, network functionality and customer service will not be impaired or reduced.

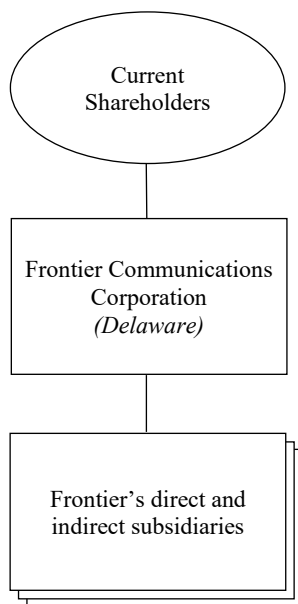
The diagram below reflects the pre and post-Chapter 11 corporate structure. Consistent with the RSA and the Plan, the Senior Noteholders will hold the stock of the new corporate parent, the Reorganized Frontier, and two additional intermediate holding companies (Frontier Communications Intermediate, and Frontier Communications Holdings) will be formed.<sup>12</sup> Through this new parent holding company corporate structure, the Reorganized Frontier will continue to own the stock of Frontier's existing operating subsidiaries.

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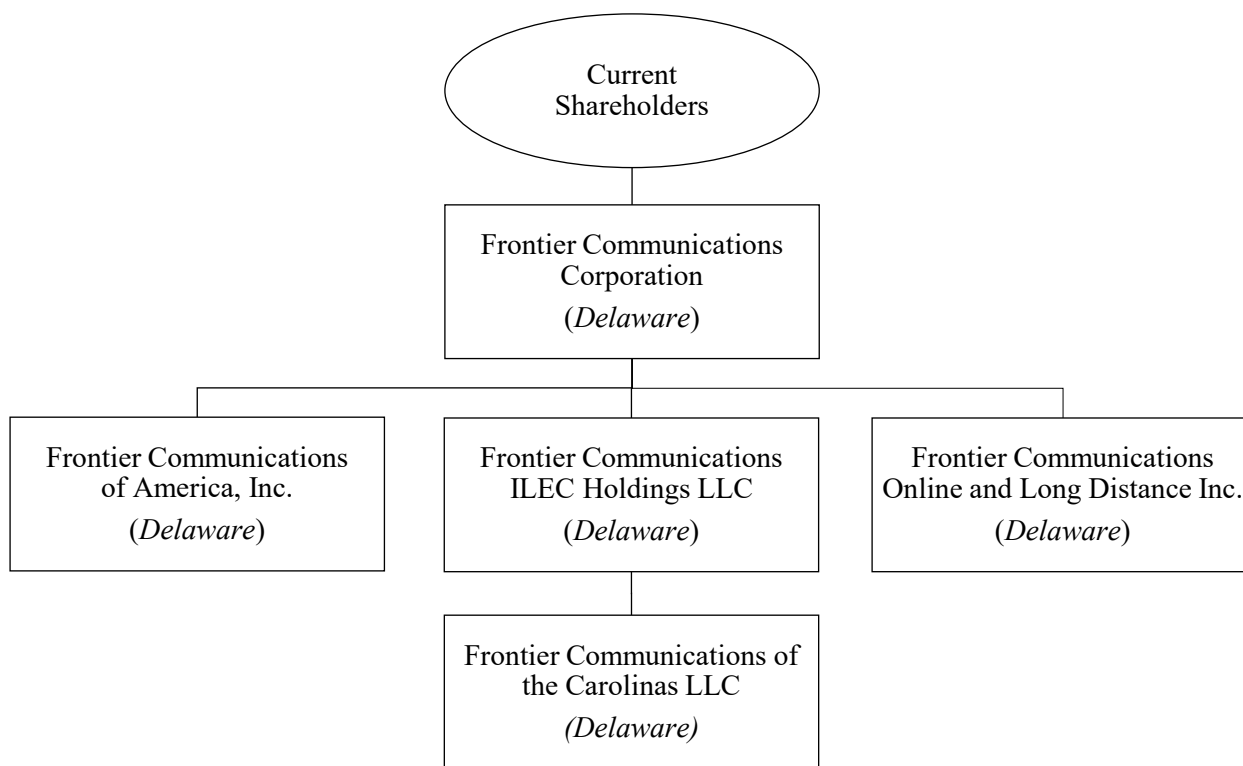
<sup>11</sup> Any future changes in the rates, terms, or conditions of service will be consistent with any applicable federal and state requirements.

<sup>12</sup> The specific holding company structure and names of the holding company entities may be modified during the course of the bankruptcy proceeding. The Applicants will advise the Commission of any material changes related to the Plan.

The current corporate structure is illustrated below:

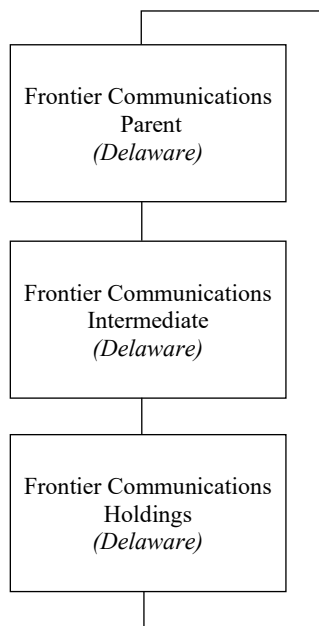


As it relates to South Carolina, the following diagram reflects the ownership structure of the Applicants:

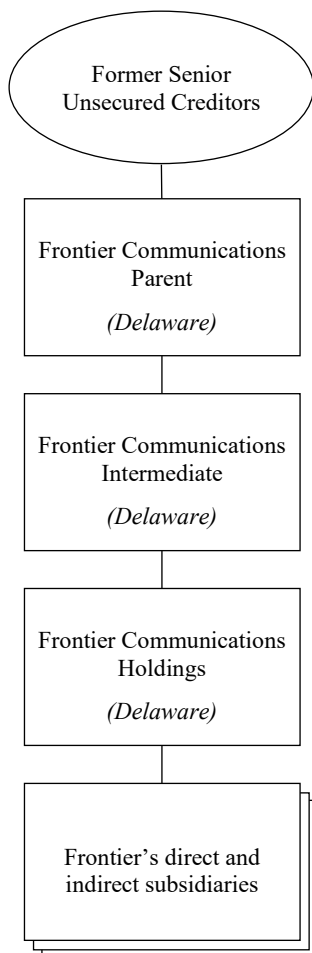




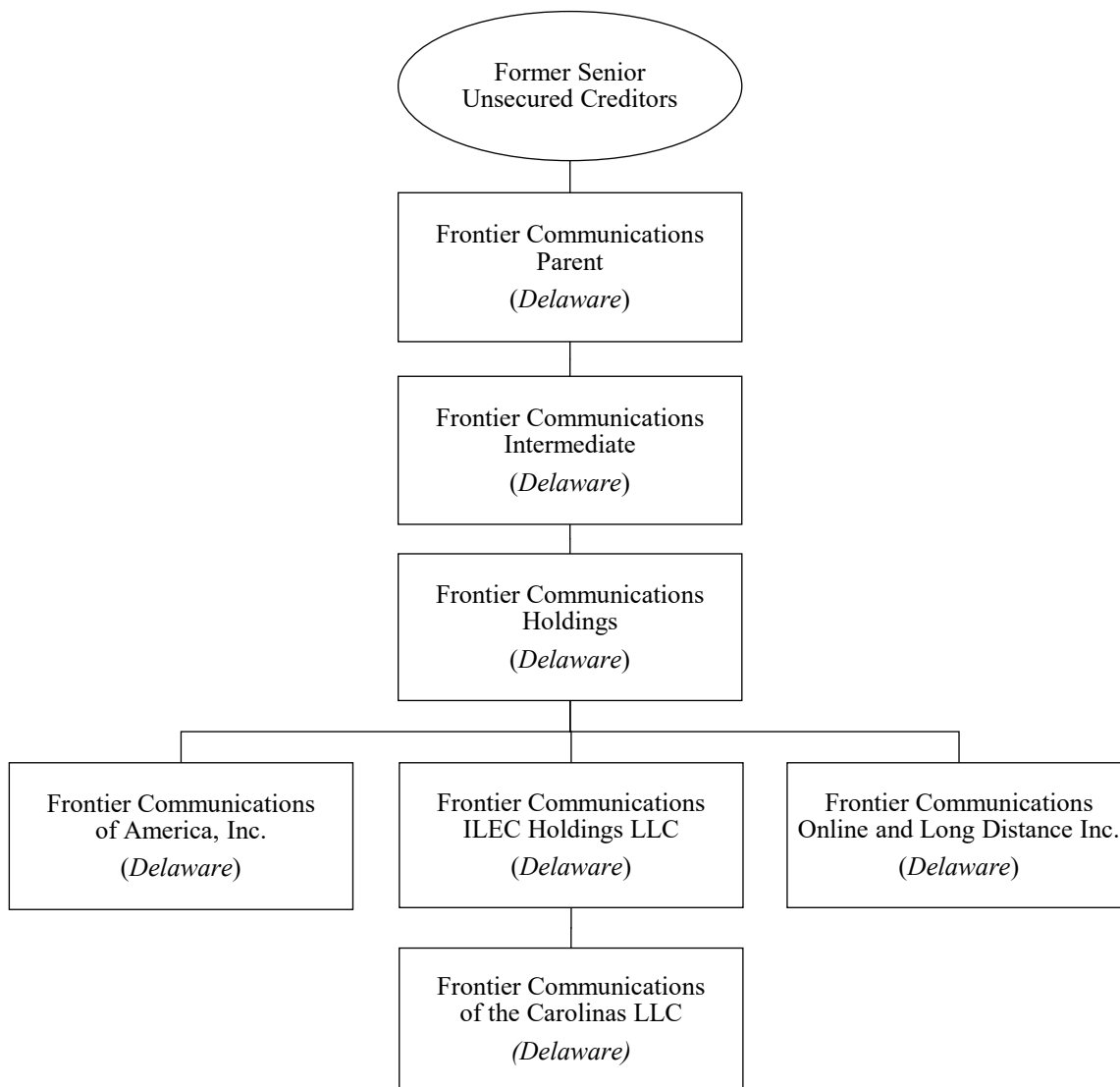
As explained above, three newly formed holding companies will replace Frontier (the current publicly traded parent holding company) in the ownership structure of the Frontier subsidiaries, including the Applicants, depicted as follows:



The post-emergence overall corporate structure will be as depicted below. None of the corporate structure at the operating company level or intermediate holding company level will be impacted:



As it relates to South Carolina, the following diagram reflects the post-emergence ownership structure of Applicants:



Post-Chapter 11, Frontier will have far more financial flexibility—with reduced interest payments and more manageable debt maturities—to improve the Company’s network, become a more effective competitor, and provide higher-quality products and customer service to the benefit of its South Carolina consumers. The Restructuring will better position the Company for future success and will advance the public interest in South Carolina.

After the effective date of the Plan, Frontier-Carolinas and Frontier Online and Long Distance will provide the same regulated telecommunication services to their customers. The Plan is not expected to result in any loss or impairment of service to any customers. Customers will continue to receive their existing telecommunication services at the same rates, and under the same terms and conditions, as they did prior to the Restructuring. Indeed, the primary change resulting from the Restructuring is a change of the corporate ownership of Frontier from its existing public shareholders to the Senior Noteholders. Thus, from a customer's point of view, the services provided by the South Carolina Operating Subsidiaries will be seamless and uninterrupted.

#### **Requested Action**

Frontier respectfully asks the Commission for approval of the transfer of the ownership of Frontier Online and Long Distance and FCA from Frontier to the Reorganized Frontier under the reorganization resulting from the Restructuring.

Frontier-Carolinas is owned by Frontier ILEC Holdings, not by Frontier, so its direct corporate parent will not change. Frontier ILEC Holdings is not a telephone utility engaged in furnishing communications service to customers in South Carolina and is not regulated by the Commission. The Commission has historically not required approval of the transfer of ownership of an unregulated holding company of a utility.

For example, the Commission did not approve BellSouth's 2006 merger with AT&T, which was concluded at the holding company level. No filing was made with the Commission in connection with that transaction. The Applicants do not intend to alter or establish precedent with this Application. However, the Applicants need to demonstrate to the Senior Noteholders and the

Bankruptcy Court that they have received all necessary regulatory approvals. Therefore, the Applicants merely ask the Commission to exercise its discretion either to declare that it does not object to or, alternatively, it approves, the transfer of Frontier ILEC Holdings to the Reorganized Frontier.

### **Expedited Consideration Requested**

The Applicants respectfully request expedited consideration of this Application and waiver of a hearing. As noted above, the Company anticipates that the Bankruptcy Court will confirm and approve the Plan in August 2020. Frontier is prepared to emerge from bankruptcy as soon as it has secured the necessary regulatory approvals thereafter, including the approval of this Commission.

The Commission's expedited approval of this Application is necessary to allow the Restructuring to remain on track, and to promote Frontier's ongoing role as an important part of South Carolina's communications infrastructure, including as a carrier of last resort in rural communities. An extended approval process would cause Frontier to incur significant administrative, legal, and Chapter 11-related expenses, funds that could otherwise be invested in the Company's businesses in South Carolina and other states in Frontier's service areas throughout the country. For these reasons, the Applicants respectfully request expedited consideration of this Application to permit completion of the Restructuring as soon as possible.

The Applicants respectfully request that the Commission:

- I. Grant expedited consideration, including waiver of a hearing, and approval;
- II. Approve the transfer of Frontier Online and Long Distance and FCA in connection with the Restructuring;
- III. Approve, or declare it has no objection to, the transfer of Frontier ILEC

Holdings' ownership in connection with the reorganization; and

IV. Order any additional relief the Commission determines is appropriate.

DATED this 22<sup>nd</sup> of May, 2020.

Respectfully submitted,

*s/ Charlie Terreni*

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#### **CERTIFICATION**

I certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment by contempt.

Date: May 22, 2020



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*Allison M. Ellis*  
*Senior Vice President, Regulatory Affairs*  
*Frontier Communications Corporation*